

# Auditing Procedures Report V1.04

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Issued under Public Act 2 of 1968, as amended.

Unit Name Village of Freeport	County BARRY	Type VILLAGE	MuniCode 08-3-010
Opinion Date-Use Calendar Jun 5, 2008	Audit Submitted-Use Calendar Aug 6, 2008	Fiscal Year-Use Drop List	2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 157,397.00
General Fund Expenditure:	\$ 147,636.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 57,003.00
Governmental Activities Long-Term Debt (see instructions):	\$ 0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

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**VILLAGE OF FREEPORT**  
**FINANCIAL STATEMENTS**  
For the year ended February 29, 2008

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INDEPENDENT AUDITORS' REPORT

To the Village Council  
Village of Freeport  
Barry County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Freeport, Michigan, as of and for the year ended February 29, 2008, which collectively comprise the Village's financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Freeport, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Freeport, Michigan, as of February 29, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 5, 2008, on our consideration of the Village of Freeport, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The required supplementary information listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Village of Freeport's basic financial statements. The additional supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Village of Freeport, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Hastings, Michigan  
June 5, 2008

*Walker, Fluke & Sheldon, PLC*

**VILLAGE OF FREEPORT**  
**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
February 29, 2008

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	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-Type</b>	
<b>ASSETS</b>	<b>Activities</b>	<b>Activities</b>	<b>Total</b>
Cash and Cash Equivalents	\$ 102,055	\$ 79,182	\$ 181,237
Investments	1,822	-	1,822
Receivables (Net)			
Taxes - Delinquent	9,226	-	9,226
Accounts	3,498	20,883	24,381
Due From State	21,223	-	21,223
Due From Other Funds	8,422	-	8,422
Internal Balances	(14,075)	14,075	-
Restricted Assets	-	25,213	25,213
Capital Assets (Net of Accumulated Depreciation)	<u>115,767</u>	<u>1,184,515</u>	<u>1,300,282</u>
<b>Total Assets</b>	<u><b>247,938</b></u>	<u><b>1,323,868</b></u>	<u><b>1,571,806</b></u>
<b>LIABILITIES</b>			
Accounts Payable	2,192	-	2,192
Accrued Liabilities	-	15,194	15,194
Due to Other Funds	6,492	397	6,889
Noncurrent Liabilities			
Due Within One Year	-	10,000	10,000
Due In More Than One Year	<u>-</u>	<u>836,000</u>	<u>836,000</u>
<b>Total Liabilities</b>	<u><b>8,684</b></u>	<u><b>861,591</b></u>	<u><b>870,275</b></u>
<b>NET ASSETS</b>			
Net Assets			
Invested in Capital Assets, Net of Related Debt	115,767	338,515	454,282
Restricted for Debt Service	-	15,407	15,407
Restricted for Capital Projects	-	9,806	9,806
Unrestricted	<u>123,487</u>	<u>98,549</u>	<u>222,036</u>
<b>Total Net Assets</b>	<u><b>\$ 239,254</b></u>	<u><b>\$ 462,277</b></u>	<u><b>\$ 701,531</b></u>

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF FREEPORT**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**February 29, 2008**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary Government</b>						
Governmental Activities						
Legislative	\$ 3,994	\$ -	\$ -	\$ (3,994)	\$ -	\$ (3,994)
General Government	56,525	4,608	2,345	(49,572)	-	(49,572)
Public Safety	45,888	-	13,375	(32,513)	-	(32,513)
Public Works	79,252	-	56,775	(22,477)	-	(22,477)
Recreational and Cultural	10,315	-	-	(10,315)	-	(10,315)
Other	14,067	-	-	(14,067)	-	(14,067)
Total Governmental Activities	<u>210,041</u>	<u>4,608</u>	<u>72,495</u>	<u>(132,938)</u>	<u>-</u>	<u>(132,938)</u>
Business-type Activities						
Water	76,020	111,166	-	-	35,146	35,146
Interest and Fiscal Charges	<u>35,026</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(35,026)</u>	<u>(35,026)</u>
Total Business-type Activities	<u>111,046</u>	<u>111,166</u>	<u>-</u>	<u>-</u>	<u>120</u>	<u>120</u>
Total Primary Government	<u>\$ 321,087</u>	<u>\$ 115,774</u>	<u>\$ 72,495</u>	<u>(132,938)</u>	<u>120</u>	<u>(132,818)</u>
<b>General Revenues</b>						
Taxes and Penalties				75,985	-	75,985
Licenses and Permits				676	-	676
State Grants				38,577	-	38,577
Investment Income				9,117	1,862	10,979
Other				<u>6,780</u>	<u>-</u>	<u>6,780</u>
Total General Revenue				131,135	1,862	132,997
Gain on Disposal of Asset				1,012	-	1,012
Change in Net Assets				(791)	1,982	1,191
Net Assets-Beginning				<u>240,045</u>	<u>460,295</u>	<u>700,340</u>
Net Assets-Ending				<u>\$ 239,254</u>	<u>\$ 462,277</u>	<u>\$ 701,531</u>

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF FREEPORT**  
**GOVERNMENT FUND BALANCE SHEET**  
February 29, 2008

		Major	Local	Total
<b>ASSETS</b>	<b>General</b>	<b>Streets</b>	<b>Streets</b>	<b>Governmental</b>
				<b>Funds</b>
Cash and Cash Equivalents	\$ 49,955	\$ 40,441	\$ 11,659	\$ 102,055
Investments	1,822	-	-	1,822
Receivables				
Taxes - Delinquent	9,226	-	-	9,226
Other	3,498	-	-	3,498
Due From State	12,260	6,874	2,089	21,223
Due From Other Funds	1,866	6,122	434	8,422
	<u>78,627</u>	<u>53,437</u>	<u>14,182</u>	<u>146,246</u>
Total Assets	\$	\$	\$	
				146,246
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities</b>				
Accounts Payable	\$ 2,192	\$ -	\$ -	2,192
Due to Other Funds	19,432	787	348	20,567
	<u>21,624</u>	<u>787</u>	<u>348</u>	<u>22,759</u>
Total Liabilities				22,759
<b>Fund Balances</b>				
Reserved	-	-	-	-
Designated	-	-	-	-
Unreserved-Undesignated	57,003	52,650	13,834	123,487
	<u>57,003</u>	<u>52,650</u>	<u>13,834</u>	<u>123,487</u>
Total Fund Balances				123,487
Total Liabilities and Fund Balances	\$ 78,627	\$ 53,437	\$ 14,182	

**Reconciliation of the Governmental Fund's Balance Sheet to the  
Statement of Net Assets:**

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds

Governmental capital assets	209,762	
Less: Accumulated Depreciation	<u>93,995</u>	115,767

Long-term liabilities used in governmental activities are not due and payable in the current period and therefore are not reported in the governmental funds

Net Assets of Governmental Activities	<u>\$ 239,254</u>
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**VILLAGE OF FREEPORT**  
**GOVERNMENT FUND STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**For the Year Ended February 29, 2008**

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
Taxes and Penalties	\$ 76,018	\$ -	\$ -	\$ 76,018
Licenses and Permits	676	-	-	676
State Grants	38,577	38,268	11,628	88,473
Charges for Services	4,608	-	-	4,608
Fines and Forfeitures	-	-	-	-
Interest and Rentals	8,139	721	257	9,117
Other Revenue	<u>29,379</u>	<u>-</u>	<u>-</u>	<u>29,379</u>
<b>Total Revenues</b>	<u>157,397</u>	<u>38,989</u>	<u>11,885</u>	<u>208,271</u>
<b>Expenditures</b>				
Current				
Legislative	3,994	-	-	3,994
General Government	55,222	-	-	55,222
Public Safety	45,502	-	-	45,502
Public Works	9,148	41,535	18,062	68,745
Recreation and Cultural	8,995	-	-	8,995
Other	14,067	-	-	14,067
Debt Service	8,912	-	-	8,912
Capital Outlay	<u>1,796</u>	<u>-</u>	<u>-</u>	<u>1,796</u>
<b>Total Expenditures</b>	<u>147,636</u>	<u>41,535</u>	<u>18,062</u>	<u>207,233</u>
<b>Excess of Revenues Over (Under)</b>				
Expenditures	<u>9,761</u>	<u>(2,546)</u>	<u>(6,177)</u>	<u>1,038</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Fixed Assets	<u>2,346</u>	<u>-</u>	<u>-</u>	<u>2,346</u>
<b>Total Other Financing Sources (Uses)</b>	<u>2,346</u>	<u>-</u>	<u>-</u>	<u>2,346</u>
<b>Excess of Revenues and Other Sources</b>				
Over (Under) Expenditures and Other Uses	<u>12,107</u>	<u>(2,546)</u>	<u>(6,177)</u>	<u>3,384</u>
<b>Fund Balance-March 1, 2007</b>	<u>44,896</u>	<u>55,196</u>	<u>20,011</u>	<u>120,103</u>
<b>Fund Balance-February 29, 2008</b>	<u>\$ 57,003</u>	<u>\$ 52,650</u>	<u>\$ 13,834</u>	<u>\$ 123,487</u>

The Notes to Financial Statements are an integral part of this statement.



**VILLAGE OF FREEPORT**  
**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES**  
**For the Year Ended February 29, 2008**

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<b>Net Change in Fund Balances - Total Governmental Funds</b>		<b>\$</b>	<b>3,384</b>
Revenues in the Statement of Activities that does not provide current financial resources are not reported as revenues in the funds			(33)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces debt)			8,912
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives			
Expenditures for capital assets	1,796		
Less: Current year depreciation	13,516		
Less: Proceeds from Disposal of Capital Assets	2,346		
Add: Gain from Disposal of Capital Assets	<u>1,012</u>		<u>(13,054)</u>
Change in Net Assets of Governmental Funds Activities		<b>\$</b>	<b><u>(791)</u></b>

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF FREEPORT**  
**PROPRIETARY FUNDS STATEMENT OF NET ASSETS**  
**February 29, 2008**

	<b>Enterprise Fund Water System</b>	<b>Total</b>
<hr/>		
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 79,182	\$ 79,182
Receivables (Net)		
Accounts	20,883	20,883
Due from Other Funds	14,075	14,075
Restricted Assets	25,213	25,213
Capital Assets (Net of Accumulated Depreciation)	<u>1,184,515</u>	<u>1,184,515</u>
 Total Assets	 <u>\$ 1,323,868</u>	 <u>\$ 1,323,868</u>
<hr/>		
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accrued Liabilities	\$ 15,194	\$ 15,194
Due to Other Funds	397	397
Bonds Payable	<u>846,000</u>	<u>846,000</u>
 Total Liabilities	 <u>861,591</u>	 <u>861,591</u>
Net Assets		
Net Assets		
Investment in Capital Assets, Net of Related Debt	338,515	338,515
Restricted for Debt Service	15,407	15,407
Restricted for Capital Projects	9,806	9,806
Unrestricted	<u>98,549</u>	<u>98,549</u>
 Total Net Assets	 <u>462,277</u>	 <u>462,277</u>
 Total Liabilities and Net Assets	 <u>\$ 1,323,868</u>	 <u>\$ 1,323,868</u>

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF FREEPORT**  
**PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**For the Year Ended February 29, 2008**

	<u>Enterprise Fund Water System</u>	<u>Total</u>
Operating Revenues		
Charges for Services	\$ 110,871	\$ 110,871
Other Operating Revenue	<u>295</u>	<u>295</u>
Total Operating Revenues	<u>111,166</u>	<u>111,166</u>
Operating Expenses		
Administration	1,148	1,148
Salaries and Fringe Benefits	16,279	16,279
Supplies	5,862	5,862
Contractual Services	442	442
Maintenance and Repairs	1,588	1,588
Miscellaneous	490	490
Depreciation	37,191	37,191
Bank Fees	180	180
Transportation	146	146
Printing and Publishing	453	453
Telephone	521	521
Utilities	3,762	3,762
Equipment Rental	2,000	2,000
Memberships and Dues	640	640
Insurance and Bonds	3,853	3,853
Water Testing	<u>1,465</u>	<u>1,465</u>
Total Operating Expenses	<u>76,020</u>	<u>76,020</u>
Operating Income	<u>35,146</u>	<u>35,146</u>
Nonoperating Revenues (Expenses)		
Interest Earned on Investments	1,862	1,862
Interest Expense	<u>(35,026)</u>	<u>(35,026)</u>
Total Nonoperating Revenues (Expenses)	<u>(33,164)</u>	<u>(33,164)</u>
Change in Net Assets	1,982	1,982
Net Assets-March 1, 2007	<u>460,295</u>	<u>460,295</u>
Net Assets-February 29, 2008	<u>\$ 462,277</u>	<u>\$ 462,277</u>

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF FREEPORT**  
**PROPRIETARY FUNDS STATEMENT OF CASH FLOWS**  
**For the Year Ended February 29, 2008**

	<u>Enterprise Fund Water System</u>	<u>Total</u>
Cash Flows From Operating Activities:		
Cash Charges for Services	\$ 112,046	\$ 112,046
Other Operating Revenue	295	295
Administrative Costs	(1,148)	(1,148)
Cash Payments to Employees for Services	(16,279)	(16,279)
Cash Payments to Suppliers for Goods and Services	<u>(29,957)</u>	<u>(29,957)</u>
Net Cash Provided by Operating Activities	<u>64,957</u>	<u>64,957</u>
Cash Flows From Capital and Related Financing Activities:		
Payment of Principal	(9,000)	(9,000)
Payment of Interest	<u>(35,026)</u>	<u>(35,026)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(44,026)</u>	<u>(44,026)</u>
Cash Flows From Investing Activities:		
Interest Earned on Cash Equivalents and Investments	1,862	1,862
Purchase of Fixed Assets	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Investing Activities	<u>1,862</u>	<u>1,862</u>
Net Increase in Cash and Cash Equivalents	22,793	22,793
Cash and Cash Equivalents at Beginning of the Year (Including \$15,075 in restricted accounts)	<u>81,602</u>	<u>81,602</u>
Cash and Cash Equivalents at End of the Year (Including \$25,213 in restricted accounts)	<u>\$ 104,395</u>	<u>\$ 104,395</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 35,146	\$ 35,146
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	37,191	37,191
Decrease (Increase) in Accounts Receivable	1,175	1,175
Decrease (Increase) in Due From Other Funds	<u>(8,555)</u>	<u>(8,555)</u>
Net Cash Provided by Operating Activities	<u>\$ 64,957</u>	<u>\$ 64,957</u>

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF FREEPORT**  
**FIDUCIARY FUNDS STATEMENT OF NET ASSETS**  
**February 29, 2008**

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<b>ASSETS</b>	<b>Trust and Agency</b>
Current Assets	
Cash and Cash Equivalents	\$ 6,363
Due From Other Funds	<u>409</u>
Total Assets	<u>\$ 6,772</u>
<b>LIABILITIES</b>	
Current Liabilities	
Due to Other Funds	\$ 1,942
Accrued Liabilities	<u>4,830</u>
Total Liabilities	<u>\$ 6,772</u>

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF FREEPORT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended February 29, 2008**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Village of Freeport conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Freeport:

**REPORTING ENTITY**

The Village of Freeport was organized in 1895. The Village operates under an elected council of six members and provides services to its residents in many areas including police protection, maintenance of Village Streets and other property, water and general Village administration. Education services are provided to citizens through several local school districts, which are separate governmental entities. Fire and ambulance service is provided by outside independently owned entities. The Village is assessed for its respective share of the expenditures.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by property taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual; therefore, they have been recognized as revenue in the current fiscal period. All other revenues are considered to be measurable only when cash is received by the Village.

**VILLAGE OF FREEPORT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended February 29, 2008**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

Taxes Receivable - The Village property tax is levied on each July 1<sup>st</sup> based on the taxable valuation of property located in the Village as of the preceding December 31<sup>st</sup>.

It is the Village's policy to recognize revenue from the current tax levy in the year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2007 State taxable valuation of the Village totaled \$9,294,529 on which ad valorem taxes levied consisted of 7.8987 mills for Village operating purposes raising \$75,248. The amounts recognized in the General Fund financial statements as current property tax revenue represent 2007 taxes.

The Village reports the following major governmental funds:

- The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.
- The Major Street Fund accounts for the maintenance of all major streets and trunk lines. Financing is provided by special revenues from provisions of Act 51 of 1951 as amended.
- The Local Street Fund accounts for the maintenance of all local streets. Financing is provided by special revenues from provisions of Act 51 of 1951 as amended.

The Village reports the following major proprietary funds:

- The Water Fund accounts for the operation and maintenance of the water supply system, capital additions, and retirement of revenue bonds. Financing is provided by user charges and contributions by other funds and customers.

Additionally, the government reports the following fund types:

- The Trust and Agency Fund accounts for the assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The Village has elected not to follow private-sector standards.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

**VILLAGE OF FREEPORT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended February 29, 2008**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**  
(Continued)

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering products in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water fund also recognizes the portion of tap fees intended to recover current cost (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

**ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY**

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1<sup>st</sup> based on the taxable valuation of property located in the Village as of the preceding December 31<sup>st</sup>. These taxes are due on August 31 with the final collection date of September 15. After that date, they are added to the county's delinquent tax rolls.

The delinquent real property taxes of the Village are purchased by Barry County.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The Village does not have any reservations or designations of fund balance.

Restricted Assets - The Village has restricted assets for debt and capital assets. The Village Council cannot change the amounts restricted and cannot spend the restricted funds for any other purpose. The revenue bonds of the enterprise funds require amounts to be set aside for debt service principal and interest, a bond reserve and capital projects. These amounts have been classified as restricted assets.

Retained Earnings Reserve - In the Water System fund, certain amounts of the retained earnings are reserved for bond and interest redemption and capital projects. The amounts of the reserves are established by bond ordinances. Any use of the reserve balances would be a violation of the bond ordinances.

Capital Assets - Capital assets, which include property, plant, and equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 for equipment and \$1,000 for improvements and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.



**VILLAGE OF FREEPORT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended February 29, 2008**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (Continued)**

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

<u>General Assets</u>	
Buildings	40 years
Land Improvements	20 years
Furniture	10 years
Equipment	7 years
Data Processing Equipment	5 years
Distribution System	30 to 50 years
<u>Infrastructure Assets</u>	
Road	8 to 30 years
Bridges	12 to 50 years
Drains, Curbs, Gutters	8 to 40 years

Compensated Absences (Vacation and Sick Leave) - Vacation pay is earned by all employees with at least twenty regularly scheduled hours each week. The amount of vacation pay earned is determined according to the length of their employment and is available for use in the year following its accrual. Vacation time is paid at the employee's current pay rate and must be used in the year available. The Village has no liability for unused vacation pay since all vacation leave is used or lost if not taken each year.

Sick leave benefits are earned by all employees except elected officials with at least one month of service. The amount of sick leave benefits earned is six days per calendar year. Sick time is paid at the employees current pay rate and must be used in the year available. Sick leave benefits will not be paid upon termination of employment. No provision has been made in the financial statements for unused sick leave.

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information - Budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The Village Boards prepares the annual budgets prior to February 29. A Public Hearing is conducted to obtain taxpayers' comments. The budget documents present information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level for the general fund and the fund level for major and local streets.

**VILLAGE OF FREEPORT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended February 29, 2008**

**EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETED FUNDS**

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended February 29, 2008, the Village incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

<b>FUND</b>	<b>BUDGET APPROPRIATION</b>	<b>ACTUAL EXPENDITURE</b>	<b>BUDGET VARIANCE</b>
General			
Legislative	\$ 3,800	\$ 3,994	\$ 194
General Government:			
Treasurer	\$ 5,000	\$ 5,107	\$ 107
Cemetery	\$ 9,100	\$ 11,105	\$ 2,005
Public Safety:			
Police	\$ 35,800	\$ 37,255	\$ 1,455
Fire	\$ 7,000	\$ 7,500	\$ 500
Public Works:			
Street Lighting	\$ 8,710	\$ 9,148	\$ 438
Other:			
Insurance and Bonds	\$ 12,300	\$ 14,067	\$ 1,767
Major Streets	\$ 31,000	\$ 41,535	\$ 10,535

**ENCUMBRANCE ACCOUNTING**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Village of Freeport.

**USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws Section 129.91, authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village has designated two banks for the deposit of the Village of Freeport funds.

The Village's deposits and investments are in accordance with statutory authority.

**VILLAGE OF FREEPORT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended February 29, 2008**

**DEPOSITS AND INVESTMENTS (Continued)**

At year-end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	<b><u>GOVERNMENTAL ACTIVITIES</u></b>	<b><u>BUSINESS-TYPE ACTIVITIES</u></b>	<b><u>FIDUCIARY FUNDS</u></b>	<b><u>PRIMARY GOVERNMENT</u></b>
Cash and Cash Equivalents	\$ 102,055	\$ 79,182	\$ 6,363	\$ 187,600
Investments	1,822	-	-	1,822
Restricted Assets	<u>-</u>	<u>25,213</u>	<u>-</u>	<u>25,213</u>
Total	<b><u>\$ 103,877</u></b>	<b><u>\$ 104,395</u></b>	<b><u>\$ 6,363</u></b>	<b><u>\$ 214,635</u></b>

The breakdown between deposits and investments is as follows:

	<b><u>PRIMARY GOVERNMENT</u></b>
Bank Deposits	\$ 214,635
(Checking and Savings Accounts, Certificates of Deposit)	
Investment in Securities	-
(Mutual Funds and Similar Vehicles)	
Petty Cash and Cash on Hand	<u>-</u>
Total	<b><u>\$ 214,635</u></b>

Custodial credit risk is the risk that the Village will not be able to recover its deposits in the event of financial institution failure. The Village's deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. At February 29, 2008, the Village had deposits with a carrying amount of \$214,635 and a bank balance of \$231,122. Of the bank balance, \$205,850 is covered by federal depository insurance, \$25,272 is uninsured and \$0 is collateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of the FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**VILLAGE OF FREEPORT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended February 29, 2008**

**CAPITAL ASSETS**

Capital asset activity of the primary government for the current year was as follows:

	<b><u>BEGINNING BALANCE</u></b>	<b><u>INCREASES</u></b>	<b><u>DECREASES</u></b>	<b><u>ENDING BALANCE</u></b>
<b>Governmental Activities</b>				
Capital Assets not Being Depreciated				
Land	\$ 14,500	\$ -	\$ -	\$ 14,500
Subtotal	<u>14,500</u>	<u>-</u>	<u>-</u>	<u>14,500</u>
Capital Assets Being Depreciated				
Buildings	70,128	1,796	-	71,924
Land Improvements	26,974	-	-	26,974
Equipment	100,044	-	5,175	94,869
Data Processing Equipment	<u>1,495</u>	<u>-</u>	<u>-</u>	<u>1,495</u>
Subtotal	<u>198,641</u>	<u>1,796</u>	<u>5,175</u>	<u>195,262</u>
Less Accumulated Depreciation for				
Buildings	24,478	1,403	-	25,881
Land Improvements	5,429	1,146	-	6,575
Equipment	52,992	10,967	3,841	60,118
Data Processing Equipment	<u>1,421</u>	<u>-</u>	<u>-</u>	<u>1,421</u>
Subtotal	<u>84,320</u>	<u>13,516</u>	<u>3,841</u>	<u>93,995</u>
Net Capital Assets Being Depreciated	<u>114,321</u>	<u>(11,720)</u>	<u>1,334</u>	<u>101,267</u>
<b>Governmental Activities Total</b>				
Capital Assets-Net of Depreciation	<u>\$ 128,821</u>	<u>\$ (11,720)</u>	<u>\$ 1,334</u>	<u>\$ 115,767</u>

**VILLAGE OF FREEPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended February 29, 2008

**CAPITAL ASSETS (Continued)**

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
<b>Business-Type Activities</b>				
Capital Assets not Being Depreciated				
Land	\$ -	\$ -	\$ -	\$ -
Subtotal	-	-	-	-
Capital Assets Being Depreciated				
Equipment	20,823	-	-	20,823
Water System	<u>1,355,719</u>	<u>-</u>	<u>-</u>	<u>1,355,719</u>
Subtotal	<u>1,376,542</u>	<u>-</u>	<u>-</u>	<u>1,376,542</u>
Less Accumulated Depreciation for				
Equipment	920	2,975	-	3,895
Water System	<u>153,916</u>	<u>34,216</u>	<u>-</u>	<u>188,132</u>
Subtotal	<u>154,836</u>	<u>37,191</u>	<u>-</u>	<u>192,027</u>
Net Capital Assets Being Depreciated	<u>1,221,706</u>	<u>(37,191)</u>	<u>-</u>	<u>1,184,515</u>
<b>Business-Type Activities Total</b>				
Capital Assets-Net of Depreciation	<u>\$ 1,221,706</u>	<u>\$ (37,191)</u>	<u>\$ -</u>	<u>\$ 1,184,515</u>

Depreciation expense was charged to programs of the Village as follows:

<b>Governmental Activities</b>	
General Government	\$ 1,303
Public Safety	386
Public Works	10,507
Recreation and Cultural	<u>1,320</u>
<b>Total Government Activities</b>	<u>\$ 13,516</u>
<b>Business-Type Activities</b>	
Water	<u>\$ 37,191</u>
<b>Total Business-Type Activities</b>	<u>\$ 37,191</u>

**VILLAGE OF FREEPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended February 29, 2008**

**INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances is as follows:

<u>FUND</u>	<u>RECEIVABLES</u>	<u>FUND</u>	<u>PAYABLES</u>
General	\$ 1,866	General	\$ 19,432
Major Street	6,122	Major Street	787
Local Streets	434	Local Streets	348
Water System	14,075	Water System	397
Payroll	409	Payroll	1,942
	<u>\$ 22,906</u>		<u>\$ 22,906</u>

The interfund receivables and payables represent money owed to other funds for expenses paid on behalf of the corresponding fund.

**LONG-TERM DEBT**

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

The following is a summary of the debt outstanding of the Village of Freeport as of February 29, 2008:

	<u>INTEREST RATE</u>	<u>PRINCIPAL MATURES</u>	<u>BEGINNING BALANCE</u>	<u>ADDITION (REDUCTIONS)</u>	<u>ENDING BALANCE</u>	<u>DUE WITHIN ONE YEAR</u>
<b>Primary Government</b>						
<b>Governmental Activities</b>						
Other Liabilities						
Backhoe	4.750%	2008	\$ 8,912	\$ (8,912)	\$ -	\$ -
<b>Business-Type Activities</b>						
Revenue Bonds						
Water System-2005	4.125%	2046	\$ 842,000	\$ (8,000)	\$ 834,000	\$ 9,000
Water System-2005	4.125%	2036	13,000	(1,000)	12,000	1,000
Total Business-Type Activities			<u>\$ 855,000</u>	<u>\$ (9,000)</u>	<u>\$ 846,000</u>	<u>\$ 10,000</u>

**VILLAGE OF FREEPORT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended February 29, 2008**

**LONG-TERM DEBT (Continued)**

The annual requirements to pay principal and interest on long-term bonds outstanding for the primary government are as follows:

<u>Year End February 28</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ -	\$ -	\$ 10,000	\$ 34,691
2010	-	-	10,000	34,279
2011	-	-	11,000	33,846
2012	-	-	11,000	33,393
2013	-	-	12,000	32,918
2014-2018	-	-	67,000	156,730
2019-2023	-	-	72,000	142,395
2024-2028	-	-	88,000	125,895
2029-2033	-	-	110,000	105,601
2034-2038	-	-	142,000	80,068
2039-2043	-	-	184,000	46,201
2044-2046	-	-	129,000	8,147
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 846,000</u>	<u>\$ 834,164</u>

**RISK MANAGEMENT**

The Village is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village manages its risk exposure and provides certain employee benefits thorough a combination of risk management pools and commercial insurance.

The Village participates in the Michigan Municipal League for general and automobile liability, motor vehicle physical damage, property damage, and workers compensation coverages. The Michigan Municipal Liability and Property Pool were established pursuant to laws of the State of Michigan which authorizes local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the pool is to jointly exercise powers common to each participating member to establish and administer a risk management program; to prevent or lessen the incidence and severity of casualty losses occurring in the operation of its members; and to defend and protect any member of the authority against liability or loss.

The Michigan Municipal Liability and Property Pool, while it operates under the Michigan Legislation of Public Act 138, does not operate as a risk pool due to a total transfer of risk to reinsurance companies backing the Michigan Municipal Liability and Property Pool. Due to this reinsurance purchase, there is no pooling of risk between members.

The Michigan Municipal Liability and Property Pool chose to adopt the forms and endorsements of conventional insurance protection and to reinsure these coverages 100%, rather than utilize a risk pool of member funds to pay individual and collective losses up to a given retention, and then have reinsurance above that retention amount.

The individual members are responsible for their self-retention amounts (deductibles) that vary from member to member.

The Village also provides employee benefits through the Michigan Municipal League with programs underwritten by commercial insurance carriers.

**VILLAGE OF FREEPORT  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended February 29, 2008**

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**RISK MANAGEMENT (Continued)**

At February 29, 2008, there were no claims, which exceeded insurance coverage. The Village had no significant reduction in insurance coverage from previous years.



**VILLAGE OF FREEPORT**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**For the Year Ended February 29, 2008**

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 44,896	\$ 44,896	\$ 44,896	\$ -
Resources (Inflows)				
Taxes and Penalties	64,378	73,578	76,018	2,440
Licenses and Permits	700	700	676	(24)
State Grants	39,600	39,600	38,577	(1,023)
Charges for Services	3,240	3,340	4,608	1,268
Interest and Rentals	22,586	18,911	8,139	(10,772)
Other Revenue	<u>17,800</u>	<u>18,700</u>	<u>29,379</u>	<u>10,679</u>
Total Resources	<u>148,304</u>	<u>154,829</u>	<u>157,397</u>	<u>2,568</u>
Charges to Appropriations (Outflows)				
Legislative	4,780	3,800	3,994	(194)
General Government				
President	900	1,023	980	43
Elections	-	32	-	32
Accounting Department	2,500	3,000	1,148	1,852
Attorney	1,500	800	-	800
Clerk	7,100	6,800	6,741	59
Treasurer	5,000	5,000	5,107	(107)
Buildings and Grounds	16,700	16,700	15,368	1,332
Community Center	17,100	17,100	14,773	2,327
Cemetery	8,200	9,100	11,105	(2,005)
Public Safety				
Police	14,400	35,800	37,255	(1,455)
Fire	7,000	7,000	7,500	(500)
Planning and Zoning	1,400	1,400	747	653
Public Works				
Street Lighting	8,710	8,710	9,148	(438)
Streets and Highways	6,600	6,600	-	6,600
Recreational and Cultural				
Parks	9,650	9,650	8,995	655
Other				
Insurance, Bonds and Fringes	12,000	12,300	14,067	(1,767)
Debt Service	8,912	8,912	8,912	-
Capital Outlay	<u>5,088</u>	<u>1,988</u>	<u>1,796</u>	<u>192</u>
Total Charges to Appropriations	<u>137,540</u>	<u>155,715</u>	<u>147,636</u>	<u>8,079</u>

**VILLAGE OF FREEPORT**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (Continued)**  
**For the Year Ended February 29, 2008**

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Excess of Resources Over (Under) Appropriations	<u>10,764</u>	<u>(886)</u>	<u>9,761</u>	<u>10,647</u>
Other Financing Sources (Uses)				
Sale of Fixed Assets	<u>-</u>	<u>2,000</u>	<u>2,346</u>	<u>346</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>2,000</u>	<u>2,346</u>	<u>346</u>
Excess of Resources and Other Sources Over (Under) Appropriations and Other Uses	<u>10,764</u>	<u>1,114</u>	<u>12,107</u>	<u>10,993</u>
Budgetary Fund Balance - February 29, 2008	<u>\$ 55,660</u>	<u>\$ 46,010</u>	<u>\$ 57,003</u>	<u>\$ 10,993</u>

**VILLAGE OF FREEPORT**  
**BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND**  
**For the Year Ended February 29, 2008**

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 55,196	\$ 55,196	\$ 55,196	\$ -
Resources (Inflows)				
State Grants	35,700	38,000	38,268	268
Interest and Rentals	<u>415</u>	<u>450</u>	<u>721</u>	<u>271</u>
Total Resources	<u>36,115</u>	<u>38,450</u>	<u>38,989</u>	<u>539</u>
Charges to Appropriations (Outflows)				
Public Works				
Street Administration			864	
Street Routine Maintenance			36,672	
Street Winter Maintenance			3,123	
Sidewalk Replacement			353	
Traffic Services			67	
Insurance and Bonds			<u>456</u>	
Total Charges to Appropriations	<u>29,860</u>	<u>31,000</u>	<u>41,535</u>	<u>(10,535)</u>
Excess of Resources Over (Under) Appropriations	<u>6,255</u>	<u>7,450</u>	<u>(2,546)</u>	<u>(9,996)</u>
Budgetary Fund Balance - February 29, 2008	<u>\$ 61,451</u>	<u>\$ 62,646</u>	<u>\$ 52,650</u>	<u>\$ (9,996)</u>

**VILLAGE OF FREEPORT**  
**BUDGETARY COMPARISON SCHEDULE - LOCAL STREET FUND**  
**For the Year Ended February 29, 2008**

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 20,011	\$ 20,011	\$ 20,011	\$ -
Resources (Inflows)				
State Grants	10,850	10,850	11,628	778
Interest and Rentals	<u>215</u>	<u>235</u>	<u>257</u>	<u>22</u>
Total Resources	<u>11,065</u>	<u>11,085</u>	<u>11,885</u>	<u>800</u>
Charges to Appropriations (Outflows)				
Public Works				
Street Administration			258	
Street Routine Maintenance			14,756	
Street Winter Maintenance			2,912	
Traffic Services			-	
Insurance and Bonds			<u>136</u>	
Total Charges to Appropriations	<u>14,200</u>	<u>41,883</u>	<u>18,062</u>	<u>23,821</u>
Excess of Resources Over (Under) Appropriations	<u>(3,135)</u>	<u>(30,798)</u>	<u>(6,177)</u>	<u>24,621</u>
Budgetary Fund Balance - February 29, 2008	<u>\$ 16,876</u>	<u>\$ (10,787)</u>	<u>\$ 13,834</u>	<u>\$ 24,621</u>

**VILLAGE OF FREEPORT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
**For the Year Ended February 29, 2008**

<u>REVENUES</u>	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Taxes and Penalties				
Property Taxes			\$ 75,248	
Collection Fees			770	
Total Taxes and Penalties	\$ 64,378	\$ 73,578	<u>76,018</u>	\$ 2,440
Licenses and Permits				
Building Permits			75	
Liquor License Refund			601	
Total Licenses and Permits	700	700	<u>676</u>	(24)
State Grants				
State Revenue Sharing:				
Sales Tax			<u>38,577</u>	
Total State Grants	39,600	39,600	<u>38,577</u>	(1,023)
Charges for Services				
Cemetery Foundations			548	
Cemetery Grave Openings			3,460	
Sale of Cemetery Lots			600	
Total Charges for Services	3,240	3,340	<u>4,608</u>	1,268
Interest and Rentals				
Interest			1,494	
Rentals			<u>6,645</u>	
Total Interest and Rentals	22,586	18,911	<u>8,139</u>	(10,772)
Other Revenue				
Miscellaneous			3,672	
Refunds and Rebates			3,008	
Equipment Rental			6,879	
Donations			<u>15,820</u>	
Total Other Revenue	<u>17,800</u>	<u>18,700</u>	<u>29,379</u>	<u>10,679</u>
Total Revenues	<u>148,304</u>	<u>154,829</u>	<u>157,397</u>	<u>2,568</u>

**VILLAGE OF FREEPORT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)**  
**For the Year Ended February 29, 2008**

<u>EXPENDITURES</u>	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
<b>Legislative:</b>				
Salaries - Village Council			3,114	
Payroll Taxes			260	
Transportation			79	
Memberships and Dues			140	
Printing and Publishing			<u>401</u>	
Total Legislative	<u>4,780</u>	<u>3,800</u>	<u>3,994</u>	<u>(194)</u>
<b>General Government:</b>				
Village President:				
Salary			900	
Payroll Taxes			<u>80</u>	
Total Village President	900	1,023	<u>980</u>	43
Elections	-	32	-	32
Accounting Department:				
Contractual Services			<u>1,148</u>	
Total Accounting Department	2,500	3,000	<u>1,148</u>	1,852
Attorney	1,500	800	-	800
Village Clerk:				
Salary			4,140	
Payroll Taxes			290	
Supplies			336	
Office Supplies and Postage			850	
Memberships and Dues			681	
Telephone			<u>444</u>	
Total Village Clerk	7,100	6,800	<u>6,741</u>	59
Treasurer:				
Salary			4,026	
Payroll Taxes			306	
Office Supplies and Postage			433	
Memberships and Dues			335	
Miscellaneous			<u>7</u>	
Total Treasurer	5,000	5,000	<u>5,107</u>	(107)

**VILLAGE OF FREEPORT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)**  
**For the Year Ended February 29, 2008**

<u>EXPENDITURES (Continued)</u>	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
<b>General Government (Continued):</b>				
Buildings and Grounds:				
Wages			9,484	
Payroll Taxes			492	
Membership Dues			60	
Uniforms			146	
Supplies			62	
Maintenance and Repairs			393	
Utilities			4,656	
Miscellaneous			<u>75</u>	
Total Buildings and Grounds	16,700	16,700	<u>15,368</u>	1,332
Community Center:				
Salaries			2,988	
Payroll Taxes			245	
Supplies			312	
Maintenance and Repairs			1,650	
Utilities			9,228	
Miscellaneous			350	
Capital Outlay			<u>1,796</u>	
Total Community Center	22,188	19,088	<u>16,569</u>	2,519
Cemetery:				
Salary			5,621	
Payroll Taxes			465	
Supplies			455	
Gas and Oil			489	
Maintenance and Repairs			394	
Miscellaneous			<u>3,681</u>	
Total Cemetery	<u>8,200</u>	<u>9,100</u>	<u>11,105</u>	<u>(2,005)</u>
Total General Government	<u>64,088</u>	<u>61,543</u>	<u>57,018</u>	<u>4,525</u>
<b>Public Safety:</b>				
Police:				
Salaries and Wages			28,428	
Payroll Taxes			1,636	
Fringes			3,705	
Supplies			15	
Telephone			855	
Gas and Oil			1,368	
Maintenance and Repairs			618	
Printing and Publishing			7	
Memberships and Dues			509	
Miscellaneous			<u>114</u>	
Total Police	14,400	35,800	<u>37,255</u>	(1,455)

**VILLAGE OF FREEPORT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)**  
**For the Year Ended February 29, 2008**

<u>EXPENDITURES (Continued)</u>	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
<b>Public Safety (Continued):</b>				
Fire:				
Hydrant Rental			<u>7,500</u>	
Total Fire	7,000	7,000	<u>7,500</u>	(500)
Planning and Zoning:				
Planning Board Wages			600	
Payroll Taxes			54	
Printing and Publishing			58	
Memberships and Dues			<u>35</u>	
Total Planning and Zoning	<u>1,400</u>	<u>1,400</u>	<u>747</u>	<u>653</u>
Total Public Safety	<u>22,800</u>	<u>44,200</u>	<u>45,502</u>	<u>(1,302)</u>
<b>Public Works:</b>				
Street Lighting:				
Utilities			<u>9,148</u>	
Total Street Lighting	8,710	8,710	<u>9,148</u>	(438)
Streets and Highways:				
Contractual Services			-	
Total Streets and Highways	<u>6,600</u>	<u>6,600</u>	<u>-</u>	<u>6,600</u>
Total Public Works	<u>15,310</u>	<u>15,310</u>	<u>9,148</u>	<u>6,162</u>
<b>Recreation and Cultural:</b>				
Parks:				
Wages			4,801	
Payroll Taxes			415	
Supplies			435	
Utilities			1,104	
Maintenance and Repairs			1,206	
Gas and Oil			479	
Contractual Services			468	
Printing and Publishing			<u>87</u>	
Total Parks	<u>23,650</u>	<u>20,650</u>	<u>8,995</u>	<u>11,655</u>
Total Recreation and Cultural	<u>23,650</u>	<u>20,650</u>	<u>8,995</u>	<u>11,655</u>



**VILLAGE OF FREEPORT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)**  
**For the Year Ended February 29, 2008**

<b>EXPENDITURES (Continued)</b>	<b>ORIGINAL BUDGET</b>	<b>AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE WITH AMENDED BUDGET</b>
<b>Other:</b>				
Insurance, Bonds and Fringes:				
Multi-Peril Insurance			14,067	
Total Insurance, Bonds and Fringes	12,000	12,300	14,067	(1,767)
Total Other	12,000	12,300	14,067	(1,767)
<b>Debt Service:</b>				
Principal			8,912	
Interest			-	
Total Debt Service	8,912	8,912	8,912	-
Total Expenditures	151,540	166,715	147,636	19,079
Excess of Revenues Over Expenditures	(3,236)	(11,886)	9,761	21,647
<b>Other Financing Sources (Uses):</b>				
Sale of Fixed Assets	-	2,000	2,346	346
Total Other Financing Sources (Uses)	-	2,000	2,346	346
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(3,236)	(9,886)	12,107	21,993
Fund Balance-March 1, 2007	44,896	44,896	44,896	-
Fund Balance-February 29, 2008	\$ 41,660	\$ 35,010	\$ 57,003	\$ 21,993



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Village Council  
Village of Freeport  
Barry County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Freeport, as of and for the year ended February 29, 2008, which collectively comprise Village of Freeport's basic financial statements and have issued our report thereon dated June 5, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village of Freeport's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

- The Village does not have the technical expertise to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record revenue and expenditure accruals, changes in capital assets, and to present required financial statement disclosures. Currently, the Village contracts with Walker, Fluke & Sheldon, PLC to prepare the financial statements and assist with accrual entries.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed testes of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our

audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that required to be reported under Government Auditing Standards.

This communication is intended solely for the information and use of management, the board of trustees of Village of Freeport and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Hastings, MI  
June 5, 2008

Walker, Fink & Sheldon, PLLC



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To the Village Council  
Village of Freeport  
Barry County, Michigan

In planning and performing our audit of the financial statements of the Village of Freeport as of and for the year ended February 29, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Freeport's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

- The Village does not have the technical expertise to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record revenue and expenditure accruals, changes in capital assets, and to present required financial statement disclosures. Currently, the Village contracts with Walker, Fluke & Sheldon, PLC to prepare the financial statements and assist with accrual entries.

This communication is intended solely for the information and use of management, the board of trustees of Village of Freeport and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Hastings, MI  
June 5, 2008

*Walker, Fluke & Sheldon, PLC*



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June 5, 2008

To the Village Council  
Village of Freeport  
Barry County, Michigan

We have recently completed an audit of the financial statements of the Village of Freeport, Barry County, Michigan for the year ended February 29, 2008. During the course of the audit the following items came to our attention, which require further comment.

**Budgets should be Adopted for Expenditure Accounts**

During the course of the audit, it was noted that the Village is not budgeting for the special revenue funds (Major Streets and Local Streets) various expenditure activity accounts.

P.A. 621, 1978 requires governmental units to prepare annual budgets containing an itemized statement for its proposed expenditures and estimated revenues, covering all its departments and activities. The budget for expenditures of the Village should be a detailed estimate of all anticipated expenses of the Village from major sources per the Uniform Chart of Accounts for Local Units of Government.

It is recommended that the Village prepare and approve annual budgets containing detailed revenues by major source and proposed expenditures by activity. The typical activities of the Village's street funds are: Administration, Routine Maintenance, Winter Maintenance, Traffic Services and Insurance and Bonds.

**Budgets Should Be Reviewed On A Periodic Basis**

P.A. 621 of 1978, Section 17, provides that a local unit should amend the expenditures budget when it appears that the budgeted revenues will be less than anticipated expenditures. In addition, Section 18 provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended February 29, 2008, the Village over expended in several areas. The Village currently monitors the budget and does amend the budget from time to time and will continue to do so. In addition, consideration should be taken prior to year-end for typical audit adjustments and amend the budget accordingly. The approved budget and all amended budgets should become a permanent part of the board minutes.

**Quarterly Transfers To Bond Interest And Redemption Account**

During the audit, it was noted that the required quarterly transfers to the bond and interest redemption account are not being made in accordance with the bond ordinance for the Water Revenue Bonds series 2005. The Village is currently making the transfers biannually as the principal and interest payments are due. Also, the water hydrant rental fee from the general fund to the water fund is not being deposited in accordance with the Village Share Bonds, Series 2005. This is a repeat comment from prior years.

According to the bond ordinance for the Water Revenue Bonds Series 2005 (\$850,000), "there shall be set aside, quarterly on the first day of each March, June, September and December, commencing September 1, 2005, and deposited in the Bond and Interest Redemption Fund (Redemption Fund), for payment of principal and interest on the Bonds, a sum equal to at least

one-half of the amount of the interest due on the next ensuing interest payment date plus not less than one-quarter of the principal maturing on the next ensuing principal payment date each year."

According to the bond ordinance for the Village Share Bonds, Series 2005(\$60,000), "the Village shall not less often than annually transfer to the Debt Service Fund funds sufficient to pay the principal of the and interest on the Bonds when due. It is the intent of the Village to pay the principal and interest due each year on the Bonds from the public fire hydrant rentals which the Village is obligated to pay from its General Fund in accordance with the Village Water Connection, Use and Rate Ordinance." In addition, "any excess public fire hydrant rental remaining after payment of principal and interest due each year on the Bonds have been pledged for repayment of the Series 2005 Water Revenue Bonds". These amounts should be transferred to the Bond and Interest Redemption Fund (Redemption Fund), for payment of principal and interest on the Water Revenue Bonds Series 2005.

It is recommended that the Village of Freeport follow the required transfer schedule in accordance with the bond ordinances. A flow chart of the required transfer dates and amounts could be a useful tool and is highly recommended. Any deficiency in the amount required to be set aside, should be added to the next quarterly requirement.

We would like to take this opportunity to thank the Village of Freeport Clerk and Treasurer for the cooperation and courtesy extended to us during the audit. If you have any questions or need assistance, do not hesitate to contact us.

Walker, Fluke & Sheldon, PLLC